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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2019/2020

BEC1034 – MICROECONOMICS

(All sections / Groups)

23 OCTOBER 2019

9.00 a.m – 11.00 a.m

(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **EIGHT (8)** pages, including the cover page, with **TWO** sections only.
Section A – Twenty (25) Multiple Choice Questions
Section B – Three (3) Short Structured Questions
2. Attempt **ALL** questions in both **Sections A and B**. The distribution of the marks for each question is given.
3. Answer **Section A** in the MCQ answer sheet provided and **Section B** in the answer booklet provided.

SECTION A (25 marks)

Instruction: Answer all of the questions in the multiple-choice answer sheet.

1. A characteristic of the long run is
 - A) there are fixed inputs.
 - B) all inputs can be varied.
 - C) plant capacity cannot be increased or decreased.
 - D) there are both fixed and variable inputs.
2. Which of the following would be categorised as an opportunity cost?
 - A) Not being able to spend your \$10,000 savings if you invest the money into your business
 - B) The cost of purchasing supplies for your house-cleaning business
 - C) The cost of purchasing auto insurance for your dry-cleaning delivery business
 - D) All of the above.
3. The average total cost of production
 - A) is the extra cost required to produce one more unit.
 - B) equals the explicit cost of production.
 - C) equals total cost of production divided by the level of output.
 - D) equals total cost of production multiplied by the level of output.
4. Marginal cost is the
 - A) change in average cost when an additional unit of output is produced.
 - B) additional output when total cost is increased by one dollar.
 - C) additional cost of producing an additional unit of output.
 - D) change in the price of inputs if a firm buys more inputs to produce an additional unit of output.
5. If the marginal cost curve is below the average variable cost curve, then
 - A) average variable cost is increasing.
 - B) average variable cost is decreasing.
 - C) marginal cost must be decreasing.
 - D) average variable cost is at the minimum.
6. When a firm doubles all its inputs, its average cost of production increases, then production displays
 - A) diminishing returns.
 - B) economies of scale.
 - C) diseconomies of scale.
 - D) declining fixed costs.

Continued...

7. When a firm produces 50,000 units of output, its total cost equals RM6,500,000. When it increases its production to 70,000 units of output, its total cost increases to RM9,400,000. Within this range, the marginal cost of an additional unit of output is
- A) RM41.43.
 - B) RM134.29.
 - C) RM135.
 - D) RM145.
8. Which of the following is **NOT** a characteristic of a perfectly competitive market structure?
- A) There is a very large number of firms that are small compared to the market.
 - B) All firms sell identical products.
 - C) There are no restrictions to entry by new firms.
 - D) There are restrictions on exit of firms.
9. The price of a sellers' product in perfect competition is determined by
- A) the individual seller.
 - B) a few of the sellers.
 - C) market demand and market supply.
 - D) the individual demander.
10. The demand curve for an individual seller's product in perfect competition is
- A) the same as market demand.
 - B) downward sloping.
 - C) vertical.
 - D) horizontal.
11. A perfectly competitive firm produces 3,000 units of a good at a total cost of RM36,000. The price of each good is RM10. Calculate the firms' short-run profit or loss.
- A) Loss of RM6,000
 - B) Profit of RM6,000
 - C) Profit of RM30,000
 - D) Break even.
12. A firms' total profit can be calculated as all of the following **EXCEPT**
- A) total revenue minus total cost.
 - B) average profit per unit times quantity sold.
 - C) (price minus average total cost) times quantity sold.
 - D) marginal profit times quantity sold.

Continued...

13. If a perfectly competitive firm's price is less than its average total cost but greater than its average variable cost, the firm
- A) is earning a profit.
 - B) is break even.
 - C) is incurring a loss but should continue produce.
 - D) is incurring a loss and should shut down.
14. A monopoly is a seller of a product
- A) with many substitutes.
 - B) without a close substitute.
 - C) with a perfectly inelastic demand.
 - D) without a well-defined demand curve.
15. A firm that has the ability to control to some degree the price of the product it sells
- A) is also able to dictate the quantity purchased.
 - B) faces a demand curve that is inelastic throughout the range of market demand.
 - C) is a price maker.
 - D) faces a perfectly inelastic demand curve.
16. Long-run economic profits would most likely exist in which market structure(s)?
- A) Monopoly, monopolistic competition and oligopoly
 - B) Monopoly and oligopoly
 - C) Monopoly and monopolistic competition
 - D) Monopoly only
17. If a monopolist's price is \$50 at 63 units of output, and marginal revenue equals marginal cost, and average total cost equals \$43, then the firm's total profit is
- A) \$3150.
 - B) \$2709.
 - C) \$441.
 - D) \$7.
18. Compared to perfect competition, the consumer surplus in a monopoly
- A) is unchanged because price and output are the same.
 - B) is lower because price is higher and output is lower.
 - C) is higher because price is higher and output is the same.
 - D) is eliminated.

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19. Wendell can sell five motor homes per week at a price of RM22,000. If he lowers the price of motor homes to RM20,000 per week he will sell six motor homes. What is the marginal revenue of the sixth motor home?
- A) RM10,000
 - B) RM12,000
 - C) RM20,000
 - D) RM22,000
20. The reason that the coffeehouse market is a monopolistic firm rather than perfectly competitive is because
- A) barriers to entry are very low.
 - B) there are many firms in the market.
 - C) products are differentiated.
 - D) entry into the market is blocked.
21. In monopolistic competition there is/are
- A) many sellers who each face a downward-sloping demand curve.
 - B) a few sellers who each face a downward-sloping demand curve.
 - C) only one seller who faces a downward-sloping demand curve.
 - D) many sellers who each face a perfectly elastic demand curve.
22. When a monopolistic firm maximises the profit,
- A) price = marginal revenue.
 - B) price > marginal cost.
 - C) marginal revenue > average revenue.
 - D) total revenue > marginal cost.
23. An oligopoly firm is similar to a monopolistic firm in that
- A) both firms could enjoy positive profit in long run.
 - B) both operate in a market in which there are entry barriers.
 - C) both firms have market power.
 - D) both firms are in industries characterised by interdependent firms.
24. In an oligopoly market
- A) the pricing decisions of all other firms have no effect on an individual firm.
 - B) individual firms pay no attention to the behaviour of other firms.
 - C) the advertising of one firm has no effect on all other firms.
 - D) one firms' pricing decision affects all the other firms.

Continued...

25. Economies of scale can lead to an oligopolistic market structure because
- A) if larger firms have lower costs, new small entrants will not be able to produce at the low costs achieved by the big established firms.
 - B) if economies of scale are insignificant, only a few firms are able to produce at the low costs achieved by the big established firms.
 - C) a few firms can force rivals to produce at low levels of output.
 - D) a few firms can use high profits to keep out new entrants.

Section B (75 marks)

Instruction: Answer all of the questions in the answer booklet.

Question 1

- (a) Describe production “efficiency” and “inefficiency” by using a production possibility frontier (PPF) diagram. (10 marks)
- (b) Define “normative” and “positive” statement with examples. (10 marks)
- (c) State the definition of “scarcity” with an example. (5 marks)

[Total: 25 marks]

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Question 2

- (a) The following table shows the information of a monopolistic firm. Assume that the firm is having a fixed cost of RM50.

Estimate the (i) variable cost, (ii) marginal cost, (iii) total revenue, (iv) marginal revenue, (v) profit, for every unit of output at the following table:

Output	Product Price	Total Cost
10	11	80
20	10	120
30	9	170
40	8	230

(10 marks)

- (b) Explain when should a perfectly competitive firm shut down when it is suffering a negative profit. Include a diagram with the marginal revenue curve, marginal cost curve, average total cost curve and average variable cost curve in your answer.

(10 marks)

- (c) Discuss the relationship between “average total cost” and “marginal cost”.

(5 marks)

[Total: 25 marks]

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Question 3

- (a) A plague was spread and caused 40 per cent of the population died. Use a demand and supply graph of the labour market to show the effect of the plague on the wages and quantity of labour. (10 marks)
- (b) The following table shows the related information of a company:

Workers	Output	Marginal Product of Labour	Product Price	Marginal Revenue Product of Labour
0	0	-	300	-
1	8		300	
2	15		300	
3	21		300	
4	26		300	
5	30		300	
6	33		300	

- (i) Reproduce the above table into the answer booklet. Compute the Marginal Product of Labour and Marginal Revenue Product of Labour in the table above. (6 marks)
- (ii) Show that the firm is in perfect competition market. (4 marks)
- (c) Illustrate a factor that can shift the demand for labour with an example. (5 marks)
- [Total: 25 marks]

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